



PUBLIC EMPLOYEE RETIREMENT SYSTEM OF IDAHO  
607 North 8th Street  
BOISE, IDAHO 83702

MINUTES  
OF  
MEETING OF RETIREMENT BOARD

The Board of the Public Employee Retirement System of Idaho met at the PERSI Administration Building, 607 North Eighth Street in Boise, Idaho at 8:36 a.m., May 28, 2002. The following members were present:

Jody B. Olson  
Dennis L. Johnson  
J. Kirk Sullivan  
Susan K. Simmons  
Pamela I. Ahrens

Executive Director Alan H. Winkle, Deputy Attorney General Brad Goodsell, Financial Officer James Monroe, Chief Investment Officer Robert Maynard, and Management Assistant Joanne C. Ax were also in attendance. Other persons attending portions of the meeting were:

Rod MacKinnon	Mountain Pacific Investment Advisors
Drew Black	DB Fitzpatrick & Co.
Dennis Fitzpatrick	DB Fitzpatrick & Co
Casey Maslonka	DB Fitzpatrick & Co
Karen Steffen	Milliman, USA
Tom Robb	Retired Educators Assn. of Idaho
Geoffrey Lea	GMAC Commercial Mtg. Corp.
Chris Growney	Clearwater Advisors
Doug Bates	Clearwater Advisors
Jim Shakelford	Idaho Education Association
Brent Nye	Boise School District
Paula Pretlow	Capital Guardian Investment Advisors
Lionel M. Sauvage	Capital Guardian Investment Advisors
Richelle Sugiyama	PERSI
Judy Aitken	PERSI
John Doner	PERSI
Gay Lynn Bath	PERSI

## OLD BUSINESS

Approval of the Minutes: By motion duly made by Trustee Sullivan and seconded by Trustee Simmons, the Board unanimously approved the minutes of the April 23, 2002, regular meeting of the Retirement Board and those of the May 14-15 Investment Conference as submitted.

## PORTFOLIO

Monthly Portfolio The May 14-15 Investment Conference was a success as managers discussed all facets of investing and the investment environment. Mr. Maynard said the event provided an opportunity to hear from many of our managers on the same topic at the same time. He thanked the Board members and staff who attended and assisted with the arrangements. Mr. Maynard said the event exceeded his expectations. He believes it will be worthwhile to repeat the conference every two or three years. He provided updated comments from the investment managers which he will reference as he monitors future manager performance.

Mr. Maynard then discussed his investment report dated May 27, 2002, which he had updated from the version previously furnished to the Board. In the report, Mr. Maynard noted the following:

The theme is the same: the economy is still showing clear signs of a modest recovery from what was the mildest recession in US history, and the issue now being the strength of the recovery in corporate profits.

Since profits have not yet responded, nor are corporate executives yet stating they see a recovery in their businesses, the markets have and will probably continue to trend around current levels with some volatility.

Emerging markets, international equity, real estate, and TIPS have been the best performing markets, while large cap US equities are having the greatest recent difficulties. Scudder, Mountain Pacific, Brandes, and the emerging markets managers are showing the greatest recent outperformance.

All managers are either within their expected characteristics or have reasonable explanations for slight deviations. We continue to watch developments with the Deutsche Bank/Scudder transition (including the accusation by Walter Hewlett concerning the Deutsche Bank voting of proxies).

Mr. Maynard's report stated the current value of the fund as of May 27, 2002 was \$6,607,977,165. The fiscal year-to-date return percentage is negative 2.7 and the month-to-date returns are 0.7%. Reviewing page six of his report, he said all the managers are 1% or more ahead of their individual benchmarks. In order to end the fiscal year under the 25-year amortization cap, we will need to be up 3%, which seems unlikely at this point in time. After reviewing individual manager performance which is similar to last month, he said Investment

Officer Richelle Sugiyama is working on the transition of the Columbus Circle portfolio to Capital Guardian. We are working to keep transition costs as low as possible.

No major rebalancing is necessary to maintain our allocation targets. He plans to take \$175 million of the Columbus Circle funds and move that to Capital Guardian which will balance the portfolio and eliminate most of the small-cap bias. He plans to watch how this works with the rest of the portfolio and in the fall or winter begin Board discussion on whether to re-introduce a small-cap bias back into the portfolio for the next 5-10 years. He is still comfortable with the overall posture of the portfolio, which is not overwhelmingly defensive or offensive.

In response to a question from Trustee Johnson, Mr. Maynard said we hold WorldCom bonds in the CSAM portfolio and equities in the Zesiger portfolio and an index fund, totalling about \$3 million.

Mellon Performance Report – Second Quarter: Consultant Doug Dorn reviewed the Russell/Mellon Analytical Services report of performance for the first quarter of 2002. He reviewed the peer rankings and risk vs. total return of public funds. The report provided highlights on the performance of each of the asset allocations in the portfolio. There was discussion as to why the Mellon report seems different than Bob Maynard's monthly report. Different benchmarks are used in the comparisons. Mr. Maynard said if poor performance numbers are due to a PERSI Board policy, it is acceptable; if it is NOT because of a policy decision, then it is not. This has been the worst equity market compared to bond markets, so this is where the PERSI portfolio would be expected to do poorly.

Choice Plan 1<sup>st</sup> Quarter 2002 Report – Mr. Maynard reviewed the report saying the funds are generally performing as expected. The report noted one issue with the ING Small Company Fund (formerly Aetna Small Company Fund) that raises some concerns. Mr. Maynard said close monitoring of this fund by both Mercer and by PERSI staff is in place, and if the performance warrants, we may recommend a replacement. In a discussion of fees, staff reported that if members keep their 401(k) investment dollars in the PERSI Total Return Fund, they do not incur additional investment fees. There is a cost of 8 to 120 basis points when they invest in the other Choice Plan Funds which is a very low cost.

Capital Guardian Investment Advisors: Chairman Olson said Trustee Simmons is the Board's representative on the Investment Committee. Mr. Maynard, Ms. Sugiyama and Trustee Simmons had visited the Capital Guardian offices in California earlier in the month as part of the hiring process. Mr. Maynard introduced Paula Pretlow and Lionel Sauvage, the representatives from Capital Guardian Trust Company, who have been hired as a global equity manager. They reviewed their report dated May 28, 2002 which had previously been furnished to the Board. Ms. Pretlow discussed the organizational team, global equity markets and investments, and the multiple portfolio manager system they use. Answering questions from the Board, they said individual managers decide whether to hedge an individual position. The firm is now positive on the Euro and negative on the yen. After discussion, by motion duly made by Trustee Simmons, seconded by Trustee Sullivan, the Board unanimously approved the hiring of Capital Guardian as an investment manager for PERSI.

Idaho Commercial Mortgage Report. Geoffrey Lea of GMAC Commercial Mortgage Corporation discussed their review of our commercial mortgage program. The review concluded that, as has been the case in the past, the current program meets or exceeds all professional and institutional standards. The report provided the conclusions and supporting evidence for the Board. The positive conclusions include a continued favorable opinion on the servicing capability of DBF. Interviews with loan recipients were also uniformly positive – the only concerns being the additional requirements of the program, and particularly the insistence on financial recourse (which are benefits from PERSI's perspective). No recommendation for additional procedures or changes has been made. Responding to a question from the Board, Mr. Lea said each year he attempts to interview new borrowers with recent originations. They also consider geographic diversity in the sampling. This year, fewer borrowers mentioned the recourse loan provision than in the past. He said borrowers must be represented by a broker; if they come to the firm directly, they are directed to a broker. There was discussion about the fact that half of the loan servicing is done by a bank and the balance by DB Fitzpatrick. Mr. Maynard said it is a risk control measure so someone is familiar with our process in the event of unforeseen problems.

Dennis Fitzpatrick addressed the Board and reviewed the report they had previously furnished to the Board. He and his team which included Drew Black and Casey Maslonka reviewed the long term investment objectives of DBF, the investment performance and asset growth, and details of the PERSI Idaho Mortgage Program. Brian McGrath discussed the economic outlook and investment strategy for 2002. Information about the loan servicing process and the webpage with online loan applications was also provided to the Board.

Other Investment Business: Chairman Olson opened the floor to comments from managers who were attending the meeting. Rod MacKinnon congratulated Mr. Maynard on a successful investment conference. His firm is expecting better than expected corporate profits over the next year – not really bullish, but rising. Mr. Fitzpatrick also expects the markets to strengthen in the next six to nine months.

Choice Plan 1<sup>st</sup> Quarter 2002 Statistics: DC Specialist Gay Lynn Bath reviewed the Choice Plan Statistics. 2770 hits on the Choice Plan web page were logged in April as members used this method to change funds or gain more information on the plan. She reported that 523 calls were answered by a Customer Service Representative and 444 Voice Response calls were counted during the same timeframe. Choice Plan participation -- those voluntarily contributing to their 401(k) accounts – increased to 4,631 in April representing a 6.4% increase for the month. This is an increase of more than 1000 contributors since the beginning of 2002. About 50% of those attending Choice Plan Training Seminars are signing up to make voluntary contributions. Trustee Sullivan said the Choice Plan Facts page of the report provides information he finds helpful.

## FISCAL

Expense Reports: Financial Officer James Monroe reviewed his memorandum to the Board dated May 24, 2002, which provided an overview of fiscal issues. He said a flag pole will be installed at the corner of 8<sup>th</sup> and Washington within the next few weeks. His staff is working with employers who are not yet converted to electronic reporting; most of those who remain have fewer than 50 employees. An employer reference manual for PERSI reporting

requirements and processes will soon be available to all employers either on the web site or in hard copy. He then reviewed the Administrative and Portfolio expense reports for the month ended April 30, 2002, which had previously been furnished to the Board. In response to a question from Trustee Simmons, Mr. Monroe said no merit increases or bonuses have been awarded to staff. Chairman Olson asked staff to keep in close contact with DFM and Trustee Simmons on fiscal matters.

Quarterly Expense Reports – Senior Accountant Rhonda Yadon reviewed the unaudited financial statements for the quarters ending March 31 2002 and 2001. Due to technical difficulties, the DC plan information would not pull into the general ledger automatically and she was forced to use an old format for the report. She is working with a programmer to resolve the problems.

INFORMATION TECHNOLOGY: IT Manager Carol Boylan reported on the various projects now in progress in her department, reviewing the completed projects as well as current and future challenges including the PERSI emergency plan. She told the Board that Martin Buchanan from Watson Wyatt has worked for the past two weeks correcting some problems with Galena. PETRA, the web-based reporting system for employers, allows even small employers to provide electronic information to PERSI to expedite reporting and allow voluntary contributions to the Choice plan. Responding to a question from the Chair, Ms. Boylan said we continue to work with the Department of Administration with our e-mail and firewalls. Mr. Winkle added that we are taking a continuous improvement approach to our IT systems, hoping to avoid the need for a “big bang” replacement of the system anytime soon. We expect to increase the amount of maintenance and “remodeling” of the system believing that is cheaper to maintain and more flexible. We expect our maintenance costs to increase going forward because of this approach.

#### EXECUTIVE DIRECTOR

New Employers: By motion duly made by Trustee Sullivan seconded by Trustee Simmons with a negative vote by Trustee Ahrens, the motion passed and the Board welcomed Capital City Development Corporation as a new employer with an effective date of May 1, 2002. There are no entry costs for this employer to join PERSI.

Results of Actuarial Experience Study – Actuary Karen Steffen reviewed the 2002 Investigation of Experience report that had previously been furnished to the Board. The study found that wages are not increasing as assumed by the actuarial projections. Also, years of service (also called duration) are a better predictor of PERSI terminations of employment than age. The actuary recommended changing the assumptions used in the actuarial valuation to reflect this. After discussion, Chairman Olson said the decision on whether to change the assumptions for the next valuation will be made at the July, 2002 meeting of the Board.

Contribution Rate Issues: Executive Director Winkle began a discussion of how, when and why contribution rates are changed which he expects to continue in the coming months. Because financial markets are not performing as needed, the decision as to whether and/or when to raise PERSI contribution rates is timely. Until all the information--both actuarial and investment-- is complete, a final decision cannot be made. He expects the process to be

complete in either September or October 2002. Mr. Winkle presented the statutory structure of the contribution rates, including the 25-year amortization limit in state law and the grace periods.

Trustee Ahrens explained that if the Board determines there is a need to increase the contribution rates in 2004, the state employers would need that information in September or October of 2002 because their budgets for 2004 will be set by the legislature in January of 2003.

Questions on this issue should be directed to Mr. Winkle and our actuary; the Board will continue discussions and expects to make a decision at the September or October meeting.

Status Update: The Board had previously received the monthly status memo that summarized the projects in which PERSI is involved. Mr. Winkle told the Board there is a new charter school, Idaho Virtual High School, in Mountain Home. Charter schools are mandated into the PERSI system and Board approval is not required. The school's charter was granted January 12, 2002.

#### FUTURE BOARD MEETINGS

Trustee Johnson and Trustee Sullivan are excused from the June meeting of the Retirement Board in Coeur d'Alene. Travel arrangements are being made for the other trustees and staff.

**Tuesday, June 25, 2002, 8:30 a.m. Pacific Daylight Time, at  
The Coeur d'Alene Resort, Coeur d'Alene, Idaho**

Tuesday, July 23, 2002, 8:30 a.m., Boise - PERSI office

Tuesday, August 27, 2002, 8:30 a.m., Boise - PERSI office

Adjournment: There being no further business to conduct, by motion duly made by Trustee Johnson seconded by Trustee Simmons and unanimously approved, the meeting was adjourned at 11:43 a.m.

Jody B. Olson  
Chairman

Alan H. Winkle  
Executive Director